



Santa Clara High Technology Law Journal

Volume 24 | Issue 1

Article 1

2007

The Right to Injunctive Relief for Patent Infringement

James M. Fischer

Follow this and additional works at: <http://digitalcommons.law.scu.edu/chtlj>



Part of the [Law Commons](#)

Recommended Citation

James M. Fischer, *The Right to Injunctive Relief for Patent Infringement*, 24 SANTA CLARA HIGH TECH. L.J. 1 (2007).
Available at: <http://digitalcommons.law.scu.edu/chtlj/vol24/iss1/1>

This Article is brought to you for free and open access by the Journals at Santa Clara Law Digital Commons. It has been accepted for inclusion in Santa Clara High Technology Law Journal by an authorized administrator of Santa Clara Law Digital Commons. For more information, please contact sculawlibrarian@gmail.com.

ARTICLES

THE “RIGHT” TO INJUNCTIVE RELIEF FOR PATENT INFRINGEMENT

James M. Fischer†

Abstract

Last term, in eBay Inc. v. MercExchange, L.L.C., the Court “seemingly” rejected the Federal Circuit’s longstanding practice of awarding permanent injunctive relief as a matter of course on the patentee establishing actual infringement. The Court concluded that federal courts should evaluate the availability of injunctive relief to redress continuing, actual infringement based on the traditional four-part test. This paper explores the Court’s approach to injunctive relief in patent litigation. I argue that eBay supports an integrative view of Patent Act remedies that merges the availability of injunctive relief to the type of damages (royalties or lost profits) the patentee can claim under the Patent Act. In a nutshell, injunctive relief should ordinarily be limited to cases when the patentee seeks lost profits. In cases when the patentee seeks statutory royalties, injunctive relief should ordinarily be denied on the ground that the remedy at law is adequate.

† Professor of Law, Southwestern Law School, Los Angeles, California. I would like to thank Dean Bryant Garth and Southwestern Law School for providing financial assistance in the form of a summer research stipend that aided immensely in the completion of this paper.

I. INTRODUCTION

Litigation is serious business. Vast sums are wagered in the effort to persuade a tribunal to rule in favor of one party. In some instances, litigation is so central to the success or failure of an enterprise that the euphemism “bet the company” has arisen as a gloss on the stakes at play.¹ Patent litigation has recently become part of this “bet the company” phenomenon,² particularly with the emergence of the “übermensch” of patent litigation – the “patent troll”:

Meet a new breed of entrepreneurs: patent trolls. Proponents assert that patent trolls are entitled to extract value from underutilized patented technologies. Critics contend that they are the ambulance chasers of the new millennium. Patent trolls have inverted the traditional rationale for building an intellectual property (“IP”) portfolio. They obtain patents, not to make, use, or sell new products and technologies, but solely to force third parties to purchase licenses. Instead of investing capital to develop inventions, patent trolls wait for the industry to utilize a patented technology and then enforce their patents on the alleged infringers. And because patent trolls have no incentive to reach business solutions, target companies are left with two options: pay up or litigate.³

The continued success of patent trolling was before the Court this last term in *eBay Inc. v. MercExchange, L.L.C.*⁴ The dispute addressed what on the surface appears to be a simple issue – is a party who has prevailed on the merits and has demonstrated that its patent is being infringed entitled to an injunction? It is, or at least “used to be,” pretty close to hornbook law that injunctions are appropriate

1. As is the case with euphemisms, there is a tendency to exaggerate. See Charles Silver, “We’re Scared to Death”: *Class Certification and Blackmail*, 78 N.Y.U. L. REV. 1357, 1414 (2003) (noting that losses are often covered by insurance or a claim for insurance).

2. Peter O. Huang, *The Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.: The Return of Patent Appeals to the Regional Circuits*, 5 J. APP. PRAC. & PROCESS 197, 202-03 (2003)

Another reason patent cases are very challenging is that they often are high-pressure, ‘bet the company’ cases. Patent litigants can expect to invest at least half a million dollars, and perhaps ten or twelve times that amount, just in taking a patent case through trial. The expenses associated with an appeal only add to this already high total.

(footnotes omitted).

3. Jeremiah Chan & Matthew Fawcett, *Footsteps of the Patent Troll*, 10 INTELL. PROP. L. BULL. 1, 1 (2005) (footnotes omitted).

4. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006).

remedies to remedy infringement of patent rights.⁵ It is this connection between right and remedy that gives patent trolls the power to force settlements from an infringer – purchase immunity from the injunction *or* cease infringing and therefore see profits plummet or the business fail.

The Court's decision in *eBay* did not resolve the patent troll problem – if it is a problem⁶ – as some had hoped.⁷ The Court in a

5. Historically, the connection between adjudications of infringement and injunctions to abate continued infringements has been unquestioned. Professor Chisum devotes an entire volume of his multivolume treatise on patents to the subject of remedies. Yet, within those 761 pages, only three lines of text and a single, albeit extensive, footnote are devoted to permanent injunctions: "A patent owner prevailing on the merits of a patent infringement claim will usually be granted a permanent injunction against future infringement unless the public interest otherwise dictates." 7 DONALD S. CHISUM, CHISUM ON PATENTS § 20.04[2] (2002) (footnote omitted). The omitted footnote cites decisions noting or applying the public policy exception to the usual practice of granting a permanent injunction to cease patent infringement.

6. *E.g.*, Rochelle Dreyfuss, *Pathological Patenting: The PTO as Cause or Cure*, 104 MICH. L. REV. 1559, 1562 (2006) (reviewing ADAM B. JAFFE & JOSH LERNER, INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT (2004)). Professor Dreyfuss comments:

But as bad as the raw numbers are, the problem is aggravated by the increased power associated with these patents. The authors demonstrate that in the last two decades, the probability that a patent will be found valid and infringed has risen substantially. Furthermore, there is greater likelihood that permanent injunctions and substantial monetary damages will be awarded. With increasing confidence in the efficacy of patent litigation, new business strategies have emerged. Because patents are now more attractive than other ways of appropriating the benefits of inventiveness (such as relying on first-mover advantages), firms that might once have allowed their advances to fall into the public domain instead tie down new technologies with patents. Furthermore, the prospect of a rich award or settlement leads firms to look for "Rembrandts in the Attic" to assert against their rivals. Indeed, there are now "patent trolls"—firms whose only business is to hold up established companies and force them to pay hefty fees.

Id. at 1562 (footnote omitted). Not all commentators share the view that patent trolls are a scourge upon the land. See Katherine E. White, *Preserving the Patent Process to Incentivize Innovation in Global Economy*, 2006 SYRACUSE SCI. & TECH. L. REP. 1, 2 (2006):

To date, attacks on patent trolls persist without significant opposition. Certainly, individuals exist who abuse the patent system. That, however, is not a reason to write laws solely favoring manufacturers at the expense of promoting innovation. Preferring one type of inventor over another may have the unintended consequence of cooling inventive activity. After all, "[o]ne man's independent inventor is another's predator."

7. Initially, the Court in granting certiorari asked the parties to brief the issue of the continuing vitality of *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), which upheld an award of injunctive relief to a patent holder who was not practicing the patent. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 733 (2005). This request suggested to some that the use of patent litigation as a negotiating strategy by patent trolls might be curtailed. The Court, however, did not reconsider *Continental Paper Bag*, except to note that the district court's decision was in tension with *Continental Paper Bag*. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840 (2006). See *infra* notes 115-117 and accompanying text.

unanimous outcome, but at the same time fractured decision,⁸ decided that issuing injunctive relief to redress an adjudicated infringement of a patent rests in the sound discretion of courts.⁹ That itself was a significant statement given the tradition of granting injunctive relief practically as a matter of course to prevent future or continuing infringement.

This paper argues that judicial discretion should be exercised with an awareness of the statutory allowance of damages, but not restitution, in the Patent Act. The injunctive relief provided by the Patent Act should be limited to that necessary to protect the patentee's right to damages for infringement, either a reasonable royalty or lost profits, and not as leverage to exact part of the infringer's gains. When the patentee seeks lost profits the difficulties of proof, coupled with the patentee's right to exploit its own work for profit, should ordinarily result in the awarding of injunctive relief to prevent continuing and proven infringement. When the patentee seeks only a reasonable royalty however, monetary relief will adequately compensate the patentee. Awarding injunctive relief resembles disgorgement of the infringer's profit – a remedy denied under the Patent Act.

II. THE DECISION IN *EBAY*

eBay Inc. v. MercExchange, L.L.C., involved a claim by MercExchange that eBay was violating a process patent¹⁰ that MercExchange held. The jury found a violation and awarded damages.¹¹ A damages award allows the infringer to calculate whether it is more efficient to violate the patent and pay damages *or* respect the patent and not pay. That part of the decision was not at issue. What was at issue was the award of injunctive relief to bar eBay from

8. Justice Thomas wrote the opinion for the Court. Chief Justice Roberts wrote a concurrence, joined by Justices Scalia and Ginsburg. Justice Kennedy wrote a concurrence joined by Justices Breyer, Stevens, and Souter. Justice Alito did not participate.

9. *eBay*, 126 S. Ct. at 1841.

10. Process patents have generated substantial controversy. At its root, a process patent is just a patent that protects a way of doing something rather than the something itself (which would be a product patent). See CHISUM, *supra* note 5, § 1.03[1]. The problem is in defining the scope of the process that is patentable. For example, software patents are generally based on mathematical processes (algorithms). Yet one cannot claim a patent on math or on mathematical formulas in general. The problem is where to draw the line. See John LaBarre & Xavier Gómez-Velasco, *Ready, Set, Mark Your Patented Software!*, 12 RICH. J. L. & TECH. 3, 18-20 (2005).

11. *eBay*, 126 S.Ct. at 1839.

continuing to infringe on MercExchange's patent.¹² The injunctive relief raises the stakes by adding to the consequences of violation the sanction of contempt,¹³ which may be civil, criminal, or both.¹⁴ Because contempt sanctions can be draconian,¹⁵ the provision of injunctive relief is usually effective in ending continuing violations of the patentee's legal entitlement.

In the opinion for the Court, Justice Thomas noted the longstanding tradition in equity that an injunction, entered at the conclusion of plenary proceedings, should satisfy a four-part test:

According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.¹⁶

12. The Patent Act provides for injunctive relief on the establishment of infringement. 35 U.S.C. § 283 (2000) ("The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.").

13. *Gunn v. Univ. Comm. to End the War in Vietnam*, 399 U.S. 383, 389 (1970) ("An injunctive order is an extraordinary writ, enforceable by the power of contempt.").

14. A sanction of both criminal and civil contempt does not violate the double jeopardy clause. *United States v. Marquardo*, 149 F.3d 36, 39 (1st Cir. 1998); *United States v. Hughey*, 571 F.2d 111, 114-16 (2d Cir. 1978). Similarly, a person may be subject to both coercive and compensatory civil contempt. *Perfect Fit Indus. Inc. v. Acme Quilting Co.*, 673 F.2d 53, 56-57 (2d Cir. 1982) (noting that sanctions imposed on contemnor may properly serve to coerce future compliance or to remedy past noncompliance); *United States v. Asay*, 614 F.2d 655, 659 (9th Cir. 1980) ("Under the sanction test if the purpose of the relief is to compel the respondent to comply or to compensate the petitioner for the refusal, the contempt proceeding is civil in nature. If the purpose is to punish the respondent and vindicate the court, the proceeding is criminal."). On the differences between criminal, coercive, and compensatory contempt, see JAMES M. FISCHER, *UNDERSTANDING REMEDIES* § 191 (2d ed. 2006).

15. Contempt sanctions can include imprisonment or fine on an adjudication of criminal contempt and open-ended imprisonment or fines on an adjudication of civil contempt until the contemptuous conduct (e.g., disobedience of the court order) is discontinued. FISCHER, *supra* note 14, § 194.2 (coercive imprisonment), § 194.4 (coercive fine). Recoveries for compensatory contempt largely duplicate those available under the general law of remedies. *Id.* at § 195 (compensatory contempt).

16. *eBay*, 126 S. Ct. at 1839. The opinion did not cite or reference the judicial tradition of awarding injunctions as a general practice on a finding of infringement. See CHISUM *supra* note 5; cf. *Reebok Int'l Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir. 1994) (holding that a presumption attaches that the plaintiff patentee will suffer irreparable harm from continuing infringement once plaintiff establishes likelihood of success on its claim of infringement).

The opinion stated that the Patent Act did not authorize a departure from the traditional test.¹⁷ Therefore, both the district court's reluctance to consider injunctive relief in the face of a jury finding of infringement,¹⁸ and the court of appeals' embracing of injunctive relief when there was a finding of infringement,¹⁹ failed to address the requirements for the traditional test of issuing an injunction. The Court vacated the court of appeals' decision and remanded the matter to the district court for reconsideration whether an injunction would be appropriate under the traditional four-part test.²⁰

Some of the hidden tension in Justice Thomas's opinion for the Court can be discerned in each of the short concurrences. Chief Justice Roberts, joined by Justices Scalia and Ginsburg, while not overtly disagreeing with the concept that an injunction is a discretionary equitable remedy, emphasized that discretion is bounded here by principle and precedent:

[T]here is a difference between exercising equitable discretion pursuant to the established four-factor test and writing on an entirely clean slate. "Discretion is not a whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike." When it comes to discerning and applying those standards, in this area as others, "a page of history is worth a volume of logic."²¹

The Chief Justice's concurrence did not develop how the precedent in this field should be interpreted and applied in addressing the availability of the remedy of injunctive relief in cases of actual infringement.

Justice Kennedy, joined by Justices Stevens, Souter, and Breyer, also penned a short concurrence that questioned the use of a remedy (i.e., injunctions) in patent litigation to leverage positions in

17. *eBay*, 126 S. Ct. at 1838-39.

18. *Id.* at 1840.

19. *Id.* at 1841.

20. *Id.* at 1838.

21. *Id.* at 1841-42 (Roberts, C.J., concurring) (quoting Justice Holmes' opinion for the Court in *New York Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921)). The Holmesian adage is, however, better suited to explain a doctrine's development than as a justification for that development, for as Holmes also noted:

It is revolting to have no better reason for a rule of law than that so it was laid down in the time of Henry IV. It is still more revolting if the grounds upon which it was laid down have vanished long since, and the rule simply persists from blind imitation of the past.

O. W. Holmes, *The Path of the Law*, 10 HARV. L. REV. 457, 469 (1897).

negotiations over patent licensing fees. In Justice Kennedy's view, this use of a remedy could lead to socially undesirable results that courts should neither ignore nor countenance:

When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.²²

In the opinion for the Court, Justice Thomas noted the interplay and potential antagonism between right and remedy: "But the creation of a right is distinct from the provision of remedies for violations of that right."²³ The opinion did not further develop the theme and at first incorrectly suggests an adversarial dialectic. Rights and remedies are necessarily symbiotic. The award, which is the product of litigation, is the result of the interaction between right and remedy; both are necessary and neither alone is sufficient.

It is common, nonetheless, to state the rights created by the patent grant demanded in remediation when the right is violated.²⁴ The difficulty lies not in the statement but in its implementation. Remedies complement rights in the sense that remedies are designed to vindicate rights and undo the harm that results from violation of rights.²⁵ Identifying the proper remedy requires calculating how best the right can be vindicated and how best the harm can be rectified. For example, an award of damages is often seen as a natural corollary to a rights violation. The damages award represents both the societal expression of respect for the right and the effort to compensate the

22. *eBay*, 126 S. Ct. at 1842 (Kennedy, J., concurring).

23. *Id.* at 1840. See also Yixin H. Tang, Note, *The Future of Patent Enforcement After eBay v. MercExchange*, 20 HARV. J. L. & TECH. 235, 241-43 (2006) (noting tension among the several opinions for the "unanimous" Court).

24. This is perhaps best known by the refrain "for every wrong there is a remedy," which dates at least as far back as William Blackstone. 3 WILLIAM BLACKSTONE, COMMENTARIES ON THE LAWS OF ENGLAND 23 (Wayne Morrison ed., Cavendish Publ'g Ltd. 2001).

25. 1 DAN B. DOBBS, LAW OF REMEDIES: DAMAGES-EQUITY-RESTITUTION § 1.1 (2d ed. 1993); FISCHER, *supra* note 14, § 1.

right holder for the harm sustained as a result of the violation.²⁶ Yet the conduct that caused the right violation may have redeeming societal value; therefore, the right may enjoy only limited protection and redress.²⁷ The right itself may also enjoy only limited recognition and be burdened with glosses that limit when a violation will be recognized.²⁸

When we expand the consideration of remedies beyond damages to include injunctions, we add several additional complicating factors. First, there is the traditional view that, as a form of equitable relief, injunctions are mostly supplemental remedies to damages.²⁹ Second, is the likewise traditional view that injunctive relief, as an equitable remedy that is available as a matter of discretion and not entitlement, may not issue even when legal rights have been violated.³⁰

26. DOUGLAS LAYCOCK, *MODERN AMERICAN REMEDIES: CASES AND MATERIALS* 15 (3d ed. 2002) ("The fundamental principle of damages is to restore the injured party, as nearly as possible, to the position he would have been in had it not been for the wrong . . .").

27. Daryl J. Levinson, *Rights Essentialism and Remedial Equilibration*, 99 COLUM. L. REV. 857, 860 (1999) (discussing competing viewpoints as to whether constitutional rights are corrupted by the practical need to be expressed in a remedial format or whether constitutional rights and their corresponding remedial expression are complimentary and coequal); John C. Jeffries, Jr., *The Right-Remedy Gap in Constitutional Law*, 109 YALE L. J. 87, 90 (1999) (arguing that limiting damages to cases involving both constitutional violations and fault, but allowing injunctive relief for constitutional violations regardless of fault, encourages a broad development of constitutional rights; limiting remedies encourages innovation in the field of constitutional rights by reducing the costs of the law's development).

28. *Doe v. Chao*, 540 U.S. 614, 620 (2004) (holding that to recover statutory damages for violation of the Federal Privacy Act (5 U.S.C. § 552a (2000)) the plaintiff must demonstrate an actual injury resulting from the violation).

29. THEODORE F. T. PLUCKNETT, *A CONCISE HISTORY OF THE COMMON LAW* 673 (5th ed. 1956):

Equity is often spoken of as a supplement or an appendix to the common law; a mediaeval lawyer would perhaps have caught our meaning better if we were to say that it is a sort of gloss written by later hands around an ancient and venerable text. Law books were particularly apt to accumulate such glosses (Coke's gloss on Littleton is the latest English example). In a sense, the gloss and the text are a unity, an expanded version of the original, and the two must be read together. This does not mean, however, that there may not be conflict and contradiction between text and gloss; still less does it mean that there will be a logical and systematic distribution of material between the text and the gloss. It is commonly observed, however, that the gloss tends to grow in importance. It may corrupt the text at points; it will often be clearer, representing a later state of learning with new facts, and more elaborate thought. It often happened in the end that the gloss was of more practical importance than the original.

The process of development and relationship between law and equity is also concisely discussed in 4 SIR JOHN BAKER, *THE OXFORD HISTORY OF THE LAWS OF ENGLAND* 39-48 (Oxford University Press 2003) (1483-1558).

30. PLUCKNETT, *supra* note 29, at 692; Thomas O. Main, *ADR: The New Equity*, 74 U. CIN. L. REV. 329, 375 (2005).

On the other hand, federal courts traditionally treat a statute containing an express remedy of injunctive relief as representing an implied finding by Congress that violations of the statute harm the public interest and should be enjoined.³¹ This principle has been applied across a broad range of decisions;³² however, in *Amoco Production Co. v. Village of Gambel*, the Court cast some doubt on the continuing vitality of this doctrine:

The Court of Appeals did not dispute that the Secretary could meaningfully comply with ANILCA [Alaska National Interest Lands Conservation Act] § 810 in conjunction with his review of production and development plans. Instead, the court stated that "[irreparable] damage is *presumed* when an agency fails to evaluate thoroughly the environmental impact of a proposed action." This presumption is contrary to traditional equitable principles and has no basis in ANILCA.³³

Although this point was not directly addressed in any of the opinions in *eBay*, the emphasis in Justice Thomas's opinion for the Court on the use of the traditional four-part test suggests that the Court would now reject judicial remedies presuming injunctive relief unless Congress' intent was clear.³⁴

To note that equitable relief is a supplemental remedy or subject to judicial discretion is not to say that injunctions are second order, mercurial remedies available according to the vagaries of the court. This was the central point of Chief Justice Robert's concurrence in *eBay*.³⁵ Precedent, rules, and settled doctrine cabin and control the

31. See *United States v. City of San Francisco*, 310 U.S. 16, 31 (1940)

The equitable doctrines relied on do not militate against the capacity of a court of equity as a proper forum in which to make a declared policy of Congress effective. Injunction to prohibit continued use—in violation of that policy—of property granted by the United States, and to enforce the grantee's covenants, is both appropriate and necessary.

32. See, e.g., *United States v. Estate Preservation Servs.*, 202 F.3d 1093, 1098 (9th Cir. 2000) ("The traditional requirements for equitable relief need not be satisfied since Section 7408 [Internal Revenue Code, 26 U.S.C. § 7408] expressly authorizes the issuance of an injunction."); cf. *Video Trip Corp. v. Lighting Video, Inc.*, 866 F.2d 50, 51-52 (2d Cir. 1989) (stating that irreparable injury is presumed when the plaintiff's demonstrates a prima facie case of copyright infringement).

33. *Amoco Prod. Co. v. Vill. of Gambel*, 480 U.S. 531, 544-45 (1987) (citation omitted).

34. *Id.* at 542-43 (discussing *Weinberger v. Romero-Barcelo*, 456 U.S. 305 (1982) and *TVA v. Hill*, 437 U.S. 153 (1978)).

35. See *supra* note 21 and accompanying text. The point is accepted in the case law. *Yuba Consol. Gold Fields v. Kilkeary*, 206 F.2d 884, 889 (9th Cir. 1953) ("Equity jurisdiction being recognized, the question whether it will be exercised rests in the sound discretion of the chancellor. It must be a legal discretion based on principles of law and not on the arbitrary will

availability of equitable remedies, much as damages are calibrated and awarded on the law side.

Although *eBay* may be a unanimous opinion of the Court, the actual result is more uncertain. Only Justice Thomas unequivocally accepts the position expressed in the opinion for the Court that the availability of injunctive relief is solely a matter of judicial discretion guided by the traditional four-part test.³⁶ For all of the other Justices it is a “Yes But”;³⁷ the question is which gets more emphasis, the Yes or the But? To answer that question one needs to revisit the *eBay* opinions and examine them more thoroughly.

III. THE TRADITIONAL TEST FOR INJUNCTIVE RELIEF

There was no disagreement among the Justices that the traditional rule in equity for granting injunctive relief is the four-part test.³⁸ Because of the posture of the case – both the district court and court of appeals had applied different exogenous glosses on the traditional test – the Court did not need to go further than reject the glosses, which it did.³⁹ However it is important to recognize that the glosses applied by the lower courts are each available endogenously by analysis and application of one or more of the factors from the traditional test.

Traditionally, equitable relief (e.g., an injunction) has been withheld unless the plaintiff could show that the remedy at law (e.g.,

of the chancellor.”). See *infra* notes 64-80 and accompanying text (discussing role of judicial discretion and the granting of equitable relief)..

36. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1838 (2006).

37. *Id.* at 1841 (Roberts, C.J., concurring), 1843 (Kennedy, J., concurring).

38. Unfortunately, the test as set forth by Justice Thomas continues the confusing practice of treating irreparable injury and inadequacy of the remedy at law as distinct factors; they are not. See, e.g., 11A CHARLES ALAN WRIGHT, ARTHUR R. MILLER & MARY KAY KANE, *FEDERAL PRACTICE & PROCEDURE* § 2944 (2d ed. 1995) (noting that “[p]robably the most common method of demonstrating that there is no adequate legal remedy is by showing that plaintiff will suffer irreparable harm if the court does not intervene”); cf. *Apple Glen Crossing, L.L.C. v. Trademark Retail, Inc.*, 784 N.E.2d 484, 487 (Ind. 2003) (“To obtain a preliminary injunction, the moving party has the burden of showing by a preponderance of the evidence that: (1) the movant’s remedies at law are inadequate, thus causing irreparable harm pending resolution of the substantive action”). Some commentators distinguish between use of the term irreparable injury to refer to prejudgment equitable remedies and inadequacy of the remedy at law to refer to remedies available at the time of final judgment. OWEN M. FISS & DOUG RENDLEMAN, *INJUNCTIONS* 59 (2d ed. 1984). The distinction is noted as being technical. See LAYCOCK, *supra* note 26, at 370-71 (noting the Fiss & Rendleman distinction and stating that the distinction is “artificial”).

39. *eBay*, 126 S. Ct. at 1840-41.

monetary damages) was inadequate.⁴⁰ The concept, also known as irreparable injury,⁴¹ was designed to police the boundary between the separate court systems that developed in England and which were subsequently transposed to America during the colonial period.⁴² Thus, the irreparable injury requirement was not applied to claims within equity's core jurisdiction, such as claims involving trust misfeasance, but was applied to claims over which the dual legal systems could each claim jurisdiction.⁴³ With the merger of the two legal systems, the historical reason for the irreparable injury requirement disappeared,⁴⁴ but the requirement remains nonetheless.⁴⁵ The arguments for retaining the requirement are several-fold. First, the merger of law and equity is seen as formal and procedural, not substantive. Thus the policies that warrant sublimating equitable remedies to legal remedies remain in place notwithstanding merger.⁴⁶ Second, equitable remedies, particularly injunctions, are an especially intrusive involvement into, and interference with, the day-to-day lives of defendants given that non-compliance with an injunction subjects

40. *Hillsborough TP. v. Cromwell*, 326 U.S. 620, 622 (1946) ("[S]uits in equity shall not be sustained in the federal courts 'in any case where a plain, adequate, and complete remedy may be had at law.'") (citing former 28 U.S.C. § 384 (1946)). The provision was repealed in the 1948 revision of the Judiciary Code and the adoption of 28 U.S.C. § 1341 (1946 & Supp. 1950); nonetheless, the Court has recognized that the idea that equity will stay its hand when the remedy at law is plain, adequate, and complete states a traditional doctrine. *See e.g.*, *Fair Assessment in Real Estate Ass'n, v. McNary*, 454 U.S. 100, 107-08 (1981).

41. *See supra* note 38 (discussing convergence of the two concepts).

42. FISCHER, *supra* note 14, § 21.1 ("This requirement originated at an early date to avoid conflicts between the Chancellor and the Royal Judges. As independent yet parallel systems of dispute resolution the two courts needed principles of coexistence that would govern their relationship.") (footnote omitted).

43. *Id.*

Coexistence between equity and the common law courts led to equity's jurisdiction being divided into two categories. In the first category were those matters that had historically and traditionally been heard in equity. These included matters involving fiduciaries, which arose out of equity's long-standing and recognized jurisdiction over "uses," fraud, mistake, and bankruptcy, to name but a few. Here, equity's jurisdiction was primary and a party was not required to demonstrate that his remedy at law was inadequate. This primary jurisdiction is still recognized.

44. *Byron v. Clay*, 867 F.2d 1049, 1052 (7th Cir. 1989) ("[W]ith the merger of law and equity, it is difficult to see why equitable defenses should be limited to equitable suits any more . . .").

45. DOBBS, *supra* note 25, § 2.5 (discussing debate over utility of irreparable injury rule and noting the continued use of the rule).

46. *Ashley v. Boyle's Famous Corned Beef Co.*, 66 F.3d 164, 168-69 (8th Cir. 1995) (noting that decisions allowing equitable defenses to be asserted against legal claims have been limited to legal claims that have an origin in equity).

the defendant to the sanction of contempt.⁴⁷ Third, equitable remedies, again particularly injunctions, may over-deter and overcompensate a party for losses caused by the defendant's wrongdoing.⁴⁸ This is inconsistent with the basic remedies principle that the injured party should be restored to the position he would have realized in the absence of the wrongdoing, not a superior position.⁴⁹

The continued retention of the irreparable injury requirement has been criticized.⁵⁰ The criticism has, however, had little demonstrable impact on continued judicial recognition of the irreparable injury as a requirement for injunctive relief.

IV. THE TRADITIONAL TEST AS APPLIED IN *EBAY*

Justice Thomas's opinion for the Court found that the district court appeared to adopt certain expansive principles suggesting that injunctive relief could not issue in a broad swath of cases.⁵¹ The opinion focused on comments made by the district court that the patentee's willingness to license its patents and the patentee's lack of commercial activity in practicing the patents would be sufficient to

47. LAYCOCK, *supra* note 26, at 371-72 (noting concern but arguing that it should be examined in the context of respecting the plaintiff's liberty to exercise her rights that the defendant is infringing).

48. For example, injunctions may benefit non-parties thus raising the cost of compliance to the defendant. *Bailey v. Patterson*, 323 F.2d 201, 205-06 (5th Cir. 1963) (enjoining discriminatory policy of common carrier and requiring that all passengers be treated equally). *See also* *Larkin v. Michigan Dept. of Soc. Services*, 89 F.3d 285 (6th Cir. 1996) (upholding injunction enjoining state from enforcing statute restricting location of adult foster care homes and requiring neighbor notification, without limiting the injunction benefits to the named parties); *cf. Doe ex rel. Doe v. Bush*, 261 F.3d 1037 (11th Cir. 2001) (affirming contempt citation based on failure of defendants to provide relief to non-parties consistent with relief court order to be provided to parties; order was intended to provide system-wide remedy even though claim was not certified as class action). In some instances, the injunction may be designed to overcompensate the plaintiff to insure that the plaintiff receives adequate protection, the so-called prophylactic injunction. David S. Schoenbrod, *The Measure of an Injunction: A Principle to Replace Balancing the Equities and Tailoring the Remedy*, 72 MINN. L. REV. 627, 678 (1988) (noting that a properly tailored injunction may sometimes contain terms that go beyond the plaintiff's rightful position to avoid falling short of it).

49. *Califano v. Yamasaki*, 442 U.S. 682, 702 (1979) (stating that injunctive relief should only be as burdensome as necessary to restore the plaintiff to the position she would have occupied had the wrongful conduct not occurred).

50. Douglas Laycock, *The Death of the Irreparable Injury Rule*, 103 HARV. L. REV. 687 (1990). *But see* Doug Rendleman, *The Inadequate Remedy at Law Prerequisite for an Injunction*, 33 U. FLA. L. REV. 346, 349-52 (1981) (arguing that the requirement serves important interests, namely the plaintiff's right is too valuable to allow the defendant to breach a duty to respect plaintiff's right. The right protects something that is not easily replaceable, i.e., is unique, or monetizing the injury caused by the violation of plaintiff's right may be difficult).

51. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840 (2006).

establish that the patentee would not suffer irreparable injury.⁵² Justice Thomas's opinion for the Court concluded that such an approach was inconsistent with traditional equitable principles.⁵³ The opinion cited no authority for its position. In fact, the issue is more nuanced than Justice Thomas's opinion suggests.

Courts have recognized that the irreparable injury requirement should receive a practical, not a wooden application.⁵⁴ Thus, the prototypical case for finding irreparable injury is the seller's breach of a contract to convey realty. Under the rubric that each piece of realty is unique, damages cannot restore the disappointed buyer to her rightful position because damages will not allow her to buy exactly what she lost. In those cases, courts have allowed the buyer to obtain injunctive relief (specific performance) on the contract to convey the property.⁵⁵ This idea of "uniqueness" expresses a fundamental aspect of the irreparable injury requirement – the remedy at law is adequate if the award of damages will enable the defendant to purchase a substitute that is essentially the same or equal to what was promised under the contract.⁵⁶ When a substitute is not present, specific performance is. Thus, if the buyer wishes to acquire the property only to resell it for a profit, courts have treated this situation as one where the remedy at law (damages) is adequate because it gives the plaintiff what he wanted from the transaction – monetary profit.⁵⁷ This is,

52. *Id.*

53. *Id.*

54. This was the main theme of Professor Laycock's seminal paper on the irreparable injury rule. Laycock, *supra* note 50, *passim* (noting that courts apply the irreparable injury concept in a pragmatic, functional manner that is inconsistent with the concept itself). Professor Laycock's paper generated some academic responses, but the criticisms were largely at the margins rather than with Laycock's main thesis.

55. RESTATEMENT (SECOND) OF CONTRACTS § 360 cmt. e (1981) (stating that specific performance was usual remedy for seller's breach of a contract to sell real property because each parcel of realty was deemed to be unique, i.e., it could not be replaced by a substitute of like kind and quality. Some courts have questioned whether this concept is always applicable, but these cases have involved claims by disappointed sellers for specific performance, not disappointed buyers. In the latter case, the common law presumption that each piece of real property is unique remains inviolate even if the property is lot #347 of 1500 similar lots in the "Levittown" development). For a critique of the "uniqueness" concept, see Nancy Perkins Spyke, *What's Land Got to Do With It?: Rhetoric and Indeterminacy in Land's Favored Legal Status*, 52 BUFF. L. REV. 387, 391-98 (2004) (as applied to contracts for the sale of real property).

56. DOBBS, *supra* note 25, § 2.5(2).

57. *Miller v. LeSea Broad., Inc.*, 87 F.3d 224, 230 (7th Cir. 1996) (applying Wisconsin law) ("In a case in which, although the contract is for the sale of an entire business, the buyer's negotiations to resell the property enable his loss from the breach to the exactly monetized, the case for specific performance collapses.") (citations omitted); *Klein v. PepsiCo*, 845 F.2d 76, 80 (4th 1988):

admittedly, a disputed proposition. Not all courts accept the position that the plaintiff should be required to accept a substitute.⁵⁸ As a practical matter, the dispute in the case law illustrates the real world discretionary nature of the equitable remedy because respectable arguments can be made on each side of the irreparable injury issue.

There is nothing particularly controversial or surprising about the district court's position that monetary damages would be a sufficient remedy if the patentee's true objective was to secure monetary compensation by licensing the patent as opposed to practicing the patent. The principal has been applied in patent infringement actions, albeit in the context of preliminary rather than permanent injunctions.⁵⁹ However, this is more the product of awarding permanent injunctions as a matter of right when an infringement has been found rather than a principled distinction between the two forms of injunctive relief. Of course, the patentee will prefer a contrary construction of the issue as involving the absolute and inviolate right to exclude others from use of one's property without consent,⁶⁰ which

We note first that Virginia's adoption of the Uniform Commercial Code does not abrogate the maxim that specific performance is inappropriate where damages are recoverable and adequate. In this case Judge Williams repeatedly stated that money damages would make Klein whole. Klein argued that he wanted the plane to resell it for a profit. Finally, an increase in the cost of a replacement does not merit the remedy of specific performance. There is no room in this case for the equitable remedy of specific performance.

(citations omitted).

58. *Justus v. Clelland*, 651 P.2d 1206, 1207-08 (Ariz. Ct. App. 1982) (rejecting full compensation theory as justification to disappointed buyer); *Sedmak v. Charlie's Chevrolet, Inc.*, 622 S.W.2d 694, 700 (Mo. Ct. App. 1981) (holding that trial court did not abuse its discretion in awarding specific performance of contract to sell automobile that was not unique when buyers would be put to considerable expense, trouble, delay, and inconvenient to acquire a substitute).

59.

To obtain a preliminary injunction in a patent infringement suit, the plaintiff must establish that he will suffer irreparable injury during the litigation if such an injunction is denied. As Professor McCarthy notes, the "'irreparable injury' requirement is merely a specific application of the general doctrine that equitable relief cannot be granted unless plaintiff shows that the remedy at law is inadequate." Thus, a plaintiff will suffer no irreparable injury if he or she can obtain full compensation through the legal remedy of an award of money damages after a full trial.

CHISUM, *supra* note 5, § 20.04 [1][e] (footnote omitted). The status of intellectual property as "property" has been contentious. See Stephen L. Carter, *Does It Matter Whether Intellectual Property is Property?*, 68 CHI.-KENT L. REV. 715 (1993). The Court in *eBay* avoided direct confrontation with the issue. See Tang, *supra* note 23, at 244-45.

60. *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 643 (1947) ("A patent is a species of property. It gives the patentee or his assignee the 'exclusive right to make, use, and vend the invention or discovery' for a limited period.") (citation omitted). See

has been a traditional justification for the providing of injunctive relief.⁶¹ Therefore, the critical question should be whether the patentee's construction of the issue should be preferred, particularly when, as here, the "property" right at issue is one of statutory creation that reflects a complex mix of competing values. Justice Thomas's opinion never really addresses this issue; rather, the opinion discusses in an abstract manner the connected issue regarding how the district court should evaluate the awarding of injunctive relief.⁶² On that point, the Court opted for a case-by-case approach: "[t]o the extent that the district court adopted such a categorical rule, then, its decision cannot be squared with the principles of equity."⁶³ How is

also *Cavanaugh v. Looney*, 248 U.S. 453, 456 (1919) (holding that an injunction should issue when the intervention of a court of equity is "essential in order effectually to protect property rights against injuries otherwise irremediable"); *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312 (Fed. Cir. 2005) (en banc) ("It is a 'bedrock principle' of patent law that 'the claims of a patent define the invention to which the patentee is entitled the right to exclude'") (citing *Innova/Pure Water, Inc. v. Safari Water Filtration Sys., Inc.*, 381 F.3d 1111, 1115 (Fed. Cir. 2004); Alain A. Levasseur, *The Boundaries of Property Rights: La Notion de Biens*, 54 (supplement) AM. J. COMP. L. 145, 157 (2006) (footnotes omitted):

A patent is also a personal property right (i.e. patrimonial right in the civil law system) and is classified as incorporeal or intangible. A patent is granted to an inventor for the invention or discovery of any 'new' and useful process, machine, manufacture or any new and useful improvement on such process, machine When approved, a patent vests exclusive rights in its owner for a period of 20 years from the date of filing.

61. This was the view famously offered by Calabresi and Melamed. Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1105-06 (1972):

Whenever society chooses an initial entitlement it must also determine whether to protect the entitlement by property rules, by liability rules, or by rules of inalienability. In our framework, much of what is generally called private property can be viewed as an entitlement which is protected by a property rule. No one can take the entitlement to private property from the holder unless the holder sells it willingly and at the price at which he subjectively values the property. Yet a nuisance with sufficient public utility to avoid injunction has, in effect, the right to take property with compensation. In such a circumstance the entitlement of the property is protected only by what we call a liability rule: an external, objective standard of value is used to facilitate the transfer of the entitlement from the holder to the nuisance.

62. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839-41 (2006).

63. *Id.* at 1840. This, of course, begs the question whether the district court purported to apply the adequacy of the remedy at law as a "categorical" rule. The district court's opinion did evaluate all of the four factors before concluding that a permanent injunction should not issue. *MercExchange, L.L.C. v. eBay Inc.* 275 F. Supp.2d 695, 711-15 (E. D.Va. 2005), *aff'd*, F.3d 1323 (Fed. Cir. 2005), *vacated*, 126 S. Ct. 1837 (2006). This suggests that the court made a factual determination that the patentee (MercExchange, LLC) would not practice the patent and would thus receive a reasonable royalty as damages rather than lost profits. Because an award of money damages would provide complete relief, it would hardly amount to an abuse of discretion to deny an injunction in that setting. *See infra* notes 86-119 and accompanying text.

Justice Thomas using the term “categorical?” Before we can answer that question, we need to examine the concept of judicial discretion to award equitable relief.

There is a point of collapse when courts speak of “equitable jurisdiction” and discretion to award equitable relief. Traditionally, the irreparable injury requirement was seen as jurisdictional which made sense when law and equity were separate systems.⁶⁴ Equitable remedies were also seen as discretionary; hence, a court of equity may have the power to act, but may exercise its discretion not to act.⁶⁵ The law courts did not ascribe to this view on use of discretion.⁶⁶ With the merger of law and equity into a single system, the historical distinction between jurisdiction at law and jurisdiction in equity makes little sense when the issue of jurisdiction is viewed as the power to act. Jurisdiction is a matter of statutory grant that does not distinguish between actions at law and actions in equity.⁶⁷ To speak modernly of equitable jurisdiction means then that the elements providing for equitable relief have been met, but that the court retains discretion as to whether relief in equity will be provided in this case.⁶⁸ How restrictively or loosely discretion will be allowed becomes the critical issue.⁶⁹

64. LAYCOCK, *supra* note 26, at 370.

65. David L. Shapiro, *Jurisdiction and Discretion*, 60 N.Y.U. L. REV. 543, 548 (1985) (“A court with jurisdiction may decide for a number of reasons to refuse equitable relief.”).

66. James M. Fischer, *The Concept of Mandatory Jurisdiction*, 41 OHIO ST. L.J. 861, 862-66 (1980) (noting that the concept of mandatory jurisdiction was recognized at common law, even if the concept was not consistently applied).

67. For example, neither the grant of diversity jurisdiction (28 U.S.C. § 1332) nor federal question jurisdiction (28 U.S.C. § 1331) turn directly on whether the claim was historically recognized at law or in equity. The same is true for the Patent Act, The Sherman Act, ERISA, etc. Today, the law-equity distinction is one of remedy and the decision-maker (judge or jury), not jurisdiction. *E.g.*, *United States v. Am. Friends Serv. Comm.*, 419 U.S. 7, 11 (1974) (discussing equity “jurisdiction” and “irreparable injury” in terms of availability of remedy (injunction), not power of court); *Beacon Theaters, Inc. v. Westover*, 359 U.S. 500, 507 (1959) (discussing equity “jurisdiction” and “irreparable injury” in terms of party’s right to trial by jury or bench).

68. FISCHER, *supra* note 14, § 22.

69. For example, on establishing a breach of contract a court of law will award the plaintiff general damages as a matter of right and special damages as a matter of proof. FISCHER, *supra* note 14, § 6.4; Dobbs, *supra* note 25, § 3.2. The plaintiffs claim to the equitable remedy of specific performance is, however, constrained. The plaintiff must demonstrate that the remedy at law (damages) is inadequate *and* the court must be persuaded that it is fair and just under the circumstances to award specific performance.

Courts traditionally have been vague about what it means to say that the district court has discretion to grant or deny equitable relief.⁷⁰ As the Chief Justice noted in his concurrence, discretion is more than "whim."⁷¹ Unfortunately, the Chief Justice did not further elaborate as to what discretion "is" as opposed to what discretion "is not."⁷² In our legal culture the concept of discretion is both praised and damned,⁷³ but courts have consistently recognized the desirability and utility of allowing some decisions to rest on judicial discretion rather than rule of law.⁷⁴

To say, however, that a judge has discretion only begins the analysis. What does the exercise of discretion entail? It is generally recognized that discretion-based decision making requires that the judge actually and actively consider the issue and reach a "reasoned" resolution of the matter.⁷⁵ It is also recognized that discretion-based decision-making confers on the judge more freedom to act; even if the reviewing court disagrees with the decision reached by the judge, the court will usually affirm the decision as long as the decision is consistent with the sound exercise of judicial discretion.⁷⁶ Beyond this point, however, consensus begins to break down.⁷⁷

70. See *Piper Aircraft Corp. v. Wag-Aero, Inc.* 741 F.2d 925 (7th Cir. 1984) (Posner, J., concurring) (discussing various meanings and usages of the term "discretion").

71. See *supra* note 21 and accompanying text.

72. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841-42 (2006).

73. The concern is that discretion leads to arbitrary distinctions. KENNETH CULP DAVIS, *DISCRETIONARY JUSTICE: A PRELIMINARY INQUIRY* 3 (1971) (suggesting that where law ends, discretion begins, paraphrasing William Pitt's famous aphorism "where law ends, tyranny begins"); cf. Cass R. Sunstein, Daniel Kahneman & David Schkade, *Assessing Punitive Damages (with Notes on Cognition and Valuation in Law)*, 107 YALE L. J. 2071, 2077 (1998) ("If similarly situated people – plaintiffs and defendants alike – are not treated similarly, erratic awards are unfair.").

74. AHARON BARAK, *JUDICIAL DISCRETION*, at x-xi (Yadin Kaufmann trans., Yale Univ. Press 1989) (1987) (stating that discretion is inherent in any legal system and an asset to that system); The Honorable Henry J. Friendly, *Indiscretion About Discretion*, 31 EMORY L.J. 747, 762 (1982) (stating that discretion is a necessary part of a legal system but the exercise of discretion must be guided and controlled to prevent misuse). Even Professor Davis noted that discretion has some desirable and necessary attributes in the modern legal state: "Every governmental and legal system in world history has involved both rules and discretion. No government has ever been a government of laws and not of men in the sense of eliminating all discretionary power. Every government has always been a government of laws and of men." DAVIS, *supra* note 73, at 17.

75. This requirement is endemic to all judicial decision making. See HENRY M. HART, JR. & ALBERT M. SACKS, *THE LEGAL PROCESS: BASIC PROBLEMS IN THE MAKING AND APPLICATION OF LAW* 102 (Cambridge tent. ed. 1958).

76. *Wheat v. United States*, 486 U.S. 153, 164 (1988) ("Other district courts might have reached differing or opposite conclusions with equal justification, but that does not mean that one conclusion was 'right' and the other 'wrong.'"); *United States v. Robertson*, 15 F.3d 862,

To recognize that an initial decision maker, such as the district court, has discretion over the resolution of a particular point, such as the awarding of injunctive relief, puts particular emphasis on the standard the court of appeals selects to review that discretion-based call. Discretion comes in gradients and how rigorously the decision is reviewed is necessarily linked to how much discretion the district court actually has.⁷⁸ Courts of appeal have developed multiple approaches in this area, sometimes exercising strict review, sometimes not.⁷⁹ It is important to note that the *eBay* decision did not address the standard of review in this area; thus, lower courts retain significant freedom, notwithstanding *eBay*, to tailor the standard of review to the felt needs of the situation. By exercising a close scrutiny of, or restrained glance at, the district court's decision to grant or deny a permanent injunction, courts of appeal can effectively control the remedy available for patent infringement.⁸⁰

By recognizing the inherent open-endedness of discretion-based decision making, one can appreciate what the term "categorical"

877 n.5 (9th Cir. 1994) (Reinhardt, J., concurring) (noting that the abuse of discretion standard does not constitute approval of practice or choice found not to be an abuse of discretion), *rev'd*, 514 U.S. 669 (1995).

77. It should also be recognized that to say that the judge should engage in a "sound exercise of discretion" does not really say much. It is not the case that in actions at law the judge is free to render "unsound" decisions. The underlying idea is one that is difficult to capture in print. A sound exercise of discretion is decision-making based on an actual consideration of the facts of the case, the settled principles of law, and the equities of the case that the parties bring to the court. While at law the court's remedial decisions are said to be more confined by legal rule, which is to say dictated by precedent; in equity the idea is that precedents guide but do not dictate. The overarching principle in equity is to do justice based on the facts of the case rather than the legal rules that a law court would apply to those facts. The distinction remains fundamental and elusive, but it is a difference nonetheless.

78. See Maurice Rosenberg, *Judicial Discretion of the Trial Court, Viewed From Above*, 22 SYRACUSE L. REV. 635, 650-52 (1971) (noting four levels of discretion ranging from weak to strong).

79. *Compare* Guaranty Fin. Servs., Inc. v. Ryan, 928 F.2d 994, 998 (11th Cir. 1991) ("We review the district court's decision to grant the preliminary injunction for abuse of discretion, but if the court misapplied the law in making its decision we do not defer to its legal analysis."), *with* Sports Form, Inc. v. United Press Int'l, 686 F.2d 750, 754 (9th Cir. 1982) (stating that the court in reviewing the district court's decision to grant or deny a preliminary injunction would review *de novo* whether the district court identified the correct legal standard, but would not substitute its judgment for the district court as to whether the legal standards were correctly applied).

80. James M. Fischer, "Preliminarily" Enjoining Elections: A Tale of Two Ninth Circuit Panels, 41 SAN DIEGO L. REV. 1647, 1664-65 (2004) (noting that the appellate court's standard of review of a district court's decision regarding preliminary injunctions is to nominally apply an abuse of discretion test to the trial court's decision granting or denying preliminary injunctive relief, but to apply an abuse of discretion standard if the district court misapprehends the law or the facts).

means as used by Justice Thomas.⁸¹ In exercising discretion the court should do just that, not avoid weighing the competing demands presented by the traditional four-part test in favor of an overarching rule. The Court did not proscribe a district court from finding *on the facts* that the remedy at law was adequate in cases of patent infringement and denying an injunction on that basis⁸² – a district court cannot, however, presume or deem the remedy at law to be adequate across-the-board. That ruling will pose little deterrence when a district court believes an injunction is an inappropriate remedy in a case of patent infringement. In other words, while the Court in *eBay* closed the door on the principle that damages are always or never adequate as a matter of law (the “categorical” approach), the Court clearly left open the opportunity for a district court to find that “damages” in the particular case are adequate or inadequate.⁸³ The Court’s opinion in *eBay* will not preclude a lower court from finding either way what the lower court believes is the correct result. All the court has to do is phrase the resolution as resting on individual facts, rather than categorical principles.⁸⁴

81. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840 (2006).

82. *Id.* at 1841.

83. *Id.*

84. *See* *z4 Tech., Inc. v. Microsoft Corp.*, 434 F. Supp.2d 437 (E.D. Tex. 2006) (declining to award injunction notwithstanding jury finding of patent infringement). The district court relied on comments in Justice Kennedy’s concurrence in *eBay Inc. v. MercExchange LLC* that injunctive relief would not be appropriate when the patent that is infringed is but a minor part of the infringer’s process. *Id.* at 441. This decision is significant because z4 actually practiced the patent; yet, the district court found that the remedy at law was adequate because z4’s losses could be monetized and calculated with no substantial difficulty. *Id.* at 440-41. The district court also found that the balance of hardship if an injunction was issued would favor the defendant (Microsoft) not z4 because Microsoft would incur substantial cost and product delay were it required to design around z4’s patented process. *Id.* at 444. Moreover, if Microsoft simply ‘turned off’ the patented process, this might cause the market to be flooded with pirate versions of its product. *Id.* The district court also agreed with Microsoft’s argument that public policy favored denial of an injunction because of the impact the injunction would have on Microsoft’s retail sellers and consumers. *Id.* at 444. It should be noted that these “balance of hardship” and “public policy” arguments that the district court found persuasive are garden-variety claims that any infringer can make when an injunction is threatened. *Cf.* *Abbott Labs. v. Andrx Pharm., Inc.*, 452 F.3d 1331 (Fed Cir. 2006) (vacating preliminary injunction based on disagreement with the district court that patentee established likelihood of success). In *Abbott Laboratories*, the majority extensively revisited the legal claims and gave no apparent deference to the district court’s decision – a position criticized by the dissenting judge. *Id.* at 1349 (Newman, J., dissenting). The majority cited *eBay Inc.* for the general proposition that the availability of injunctive relief for patent infringement is committed to the district court’s discretion as amplified by the four-part test. *Id.* at 1334. The dissent cited precedents supporting deference to the district court’s exercise of judicial discretion. *Id.* at 1348-53. There is nothing in the decision, however, to suggest that *eBay Inc.* had any significant impact on the outcome. A

V. THE SUBTEXT OF *EBAY*

The Court's decision in *eBay*, although presented as a unanimous decision by the Court, is sufficiently terse, pithy, and fractured by the two concurrences as to provide some support to practically any conclusion one wishes to draw from the decision. At the minimum, the Court held that the awarding of injunctive relief for patent infringement should be done on a case-by-case basis through the application of equity's traditional four-part test.⁸⁵ The Court rejected a categorical rule either in favor of, or opposed to, the awarding of injunctive relief in this context.⁸⁶ The very limits of Justice Thomas's opinion for the Court,⁸⁷ coupled with the two divergent concurrences,⁸⁸ suggest an underlying broader vision – that district courts may use the discretion granted to them to award or withhold injunctions to advance the substantive policies of the Patent Act.

The question of whether patent rights are asserted in socially undesirable ways has been extensively debated. Much of the initial attention to the granting of certiorari in the case of *eBay Inc. v. MercExchange L.L.C.* was over the prospect that the Court would recalibrate the existing preference that favors patentees and thus patent trolls.⁸⁹ Although the Court did not use the case as an occasion to address that larger point, all three opinions in *eBay*, when read together, suggest that district courts could deny patentees the leverage that injunctive relief provides by finding that, on the facts, the remedy at law was adequate.⁹⁰ This would not only limit the patentee to a damages award, it would require the patentee to prove its actual lost profits or accept a reasonable royalty.⁹¹

The problem of patent abuse can be addressed by redefining the patentee's rights through the patent grant. Besides being enormously

listing of decisions applying the *eBay* approach is available at <http://www.thefireofgenius.com/injunctions> (last visited July 29, 2007).

85. *eBay*, 126 S. Ct. at 1841.

86. *Id.* at 1840-41. This suggests that the presumption in favor of granting a permanent injunction on a finding of infringement (*see supra* note 5 and accompanying text) should not be followed; rather the patentee must establish its entitlement to an injunction as a matter of law and fact.

87. *Id.* at 1838-41.

88. *Id.* at 1841 (Roberts, C.J., concurring); *id.* at 1843 (Kennedy, J., concurring).

89. *See supra* notes 6-7 and accompanying text; *see also infra* note 117.

90. *eBay*, 126 S. Ct. at 1838-43.

91. Unlike the Copyright Act, the Patent Act does not provide for statutory damages on proof of a violation. The plaintiff is entitled to a substantial array of remedies, including enhanced damages in cases of willful infringement. CHISUM, *supra* note 5, § 20.03[4][b] (discussing availability of augmented damages for willful patent infringement).

contentious, a restatement of rights risks being overly generous or overly parsimonious. If patent trolls present a problem today, it is in part due to the manner in which patent rights are defined. A restatement of those rights to cure the problem supposedly caused by patent trolls could result in a different and larger set of problems yet unforeseen. Rather than embarking on a journey into uncharted territory, the Court may have felt more comfortable using remedy law, particularly its casting of the injunction as a discretionary relief, to allow district courts to fine tune the remedy to the felt needs of the case. What then might those "felt needs" be?

Justice Kennedy's concurrence noted the problem of patent abuse.⁹² While all of the opinions rejected a Calabresian approach to injunctive relief that would tie the equitable remedy to the patentee's property right (i.e., right to exclude), Justice Kennedy also expressed concern that, in some cases, allowance of injunctive relief would be economically inefficient:

[A]n injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.⁹³

Justice Kennedy's concurrence expressed concern over the abusive use of patent rights to leverage unjustifiable economic rents by the threat of injunctive relief, which would require the defendant to quit the business or pay to play.⁹⁴ The concurrence situated this concern in the public policy factor of the traditional four-part test rather than the irreparable injury factor.⁹⁵ Whether this is significant or not is difficult to say; when articulated as a "public policy" consideration rather than an "irreparable injury" consideration, the concern has a broader, more "categorical" impact. The "irreparable injury" factor is usually case specific; public policy usually speaks to larger concerns. In this sense it may also be significant that Justice Kennedy's concurrence did not situate the concern in the "balancing of hardships" factor, which is also used to accommodate the interests

92. *eBay*, 126 S. Ct. at 1842-43 (Kennedy, J., concurring).

93. *Id.* at 1842.

94. *Id.* at 1842-43.

95. *Id.* at 1842.

of non-parties in the grant or denial of injunctive relief, but, because its focus is on specific third parties, tends to be more case-by-case and thus less categorical.⁹⁶ The balancing of hardships factor can also be lost when a court finds that the defendant acted in bad faith or without due regard for the plaintiff's rights.⁹⁷ Placing the concern in the public policy factor preserves the concern against loss by the defendant's inequitable conduct. Moving the concern of abuse of patents (or "misuse" depending on one's point of view) from substantive doctrine to remedy doctrine enables district courts to engage in the fine-tuning that several commentators have suggested would be an appropriate fix to current patent law.⁹⁸

Rather than redefining patent rights, a focus on the remedy for patent infringement allows the district court to reserve injunctive relief to those cases when an award of monetary damages would not compensate the patent holder for the real losses caused by the infringement in the past and future.⁹⁹ A remedy focus also allows the district court to address other problems that a less protective view of patentee rights might engender. For example, if injunctive relief becomes less likely, infringers may be encouraged to bargain in bad faith for licenses. In particular, when an infringer's profits dwarf the damages they must pay for their violation of the patentee's rights, an infringer would be in a superior bargaining position knowing that the patentee will likely be limited to a damages proof.¹⁰⁰ Giving the district court discretionary control over the remedy for patent infringement permits the court to use injunctive relief, or at least the

96. Public policy concerns come close to categorical statements, which the Court read out of the analysis in the main opinion authored by Justice Thomas. *eBay*, 126 S. Ct. at 1838-41. Situating a concern in the public policy category allows a court to invoke the concern as a reason for ruling as it does without stating that the concern is a categorical imperative.

97. FISCHER, *supra* note 14, § 33.2.

98. Mark Lemley, Doug Lichtman & Bhaven Sampat, *What to Do about Bad Patents?*, 28 REGULATION 10 (2005-2006) (arguing that availability of "presumption of validity" that attaches to patents approved by the Patent Office should be tied to applicant's willingness to pay for the actual cost of an exacting examination of the novelty of the invention).

99. See *infra* Part VI (discussing how injunctive relief should be calibrated to advance the remedial goals of the Patent Act).

100. See generally George F. Pappas, *Damages and Remedies For Patent Infringement*, SL025 ALI-ABA 119, 121 (2005) ("Upon finding for the claimant the Court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made . . . by the infringer together with interest and costs . . .") (citing 35 U.S.C. § 284 (2000)). *Id.* at 121. The Court's decision this term in *Medimmune Inc. v. Genentech* may also discourage claims for injunctions as licensees may prefer to pay and litigate as a plaintiff rather than infringe and litigate as a defendant. *Medimmune, Inc. v. Genentech*, 127 S. Ct. 764 (2007) (holding that licensee may challenge validity of patent while continuing to pay royalties to patentee).

threat of the remedy, as a Damoclean sword to encourage good faith bargaining by the infringer over licensing rights.

As noted earlier, many commentators harbor distaste for discretion because it runs against the prime directive of legal regimes that like cases be decided alike.¹⁰¹ That concern only applies if discretion is misapplied. In theory, discretion permits a court to more closely match the facts of the dispute to the correct resolution. Admittedly, this leaves much to the individual views of the decision maker as to the "correct" result – the proverbial "Chancellor's foot."¹⁰² In some cases however, the unpredictability of discretion-based decision-making may outweigh the perceived benefit of categorical based decision-making. Discretion emphasizes several values that a legal system may deem important such as the avoidance of second-guessing, the marshaling and conservation of judicial capital, and responsiveness to the individualized aspects of a controversy. In a discretion-based remedial regime, a court may identify important factors that compete with each other and which cannot all be satisfied. Courts then are delegated in every single case the responsibility of weighing and measuring the competing factors to achieve a just and correct resolution of the particular dispute. Emphasizing the discretionary nature of injunctive relief also enables courts to reconcile the providing of injunctive relief with the damages remedy provided by the Patent Act. It is to this point that we now turn.

VI. COORDINATING THE STATUTORY GRANT OF DAMAGES AND INJUNCTIVE RELIEF FOR PATENT INFRINGEMENT

Damages and injunctive relief are both generic remedies that operate to restore plaintiffs to their rightful position, which is the position a plaintiff would have occupied but for the wrong. When the plaintiff has suffered a loss or harm, this restorative feature of each remedy is well established and accepted in the law and most

101. See *supra* notes 21, 68-70 and accompanying text.

102. Equity is a roguish thing:

For law we have a measure, know what to trust to; equity is according to the conscience of him that is Chancellor, and as that is larger or narrower, so is equity. 'Tis all one, as if they should make his foot standard for the measure we call a Chancellor's foot; what an uncertain measure would this be! One Chancellor has a long foot, another a short foot, a third an indifferent foot; 'tis the same thing in the Chancellor's conscience.

Gee v. Pritchard, 36 Eng. Rep. 670, 679 (1818) (quoting JOHN SELDEN, TABLE TALK 43 (Frederick Pollock, ed., 1927) (1689)).

commentary.¹⁰³ Yet an added consequence of wrongdoing by the defendant may be gain to the defendant.¹⁰⁴ When a defendant's gain from its wrong is equal to (or less than) the plaintiff's loss, the plaintiff has little incentive to examine a "gain-based" recovery. When however, the defendant's gains exceed the plaintiff's losses, the plaintiff has an incentive to capture the gain as a remedy for the defendant's wrongdoing.¹⁰⁵ Under prior versions of the Patent Act, restitution of the infringer's profits was an accepted remedy that was thought to be fully consistent with equitable principles.¹⁰⁶

The Court addressed this issue of capturing the infringer's profit in *Aro Manufacturing Co. v. Convertible Top Replacement Co.*¹⁰⁷ The Court found that the current version of the Patent Act did not continue the prior practice allowing restitution.¹⁰⁸ Does the Court's conclusion

103. In the view of some commentators the concern should be less over redressing the harm sustained by the plaintiff than devising remedies that provide suitable signals that encourage socially desirable conduct. Compensating injured plaintiffs is not an end, but simply a means to another end – public welfare in general. Richard Craswell, *Against Fuller and Perdue*, 67 U. CHI. L. REV. 99, 106 (2000):

It is possible, of course, to disagree on the merits with Fuller and Perdue's claim that the reliance interest presents a stronger claim for protection than does the expectation interest. I will do some of that here, but my deeper concern is with the kind of normative argument that Fuller and Perdue believed was relevant to their claim. I argue below that Fuller and Perdue's appeal to Aristotle (and to corrective and distributive justice) is not a useful way of thinking about remedies for breach of contract.

Even more fundamentally, I also argue that the very classification employed by Fuller and Perdue – their famous distinction between the restitution, reliance, and expectation interests – is not a useful starting point for normative analysis. To most modern scholars (as to Fuller and Perdue), remedies can be defended only by reference to some purpose or policy they might serve.

(footnote omitted).

104. Peter Birks, *Unjust Enrichment and Wrongful Enrichment*, 79 TEX. L. REV. 1767, 1783 (2001); RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT, ch 5, topic 1, introductory note (Tentative Draft No. 4, 2005).

105. In some contexts, the plaintiff may claim both restitution and damages, but those contexts involve statutory grants or claims raising multiple causal arguments, neither of which is applicable here. DOBBS, *supra* note 25, § 4.5(5) (discussing principle reasons against combining both remedies and noting some exceptions when reasons for not combining do not apply).

106. See *Bancroft v. Acton*, 2 F. Cas. 578 (C.C.S.D.N.Y. 1870) (No. 833).

107. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964). See also CHISUM, *supra* note 5, § 20.02[4] (discussing the elimination of the patentee's remedy of restitution of the infringer's profits). Although the critical part of the opinion finding that the 1946 revision eliminated the remedy of restitution of the infringer's profits was only joined by four of the nine Justices, the position has been accepted as established. *Id.* at § 20.02[4][c] (criticizing reasoning but noting that "[s]ubsequent lower court decisions have . . . given precedential effect to *Aro II* Part IV") (footnote omitted).

108. *Aro*, 377 U.S. at 506-08. There is a statutory exception for "design" patents, which permits recovery of the infringer's profits. 35 U.S.C. § 289 (2000)

in *Aro Manufacturing*, that the Patent Act does not allow for restitutionary relief (i.e., stripping the infringer of its profits), cast any illumination on the proper use of injunctive relief in cases of patent infringement, particularly in light of the Court's focus in *eBay* on judicial discretion to award injunctive relief?

Injunctive relief may be seen as a complement to restitution in that it provides a means by which the plaintiff may preclude the defendant from reaping (or continuing to reap) gains from its wrongful conduct. The strongest case for injunctive relief is when the patentee is or will soon be practicing the patent. In that context, the injunctive relief protects and preserves the patentee from harm the patentee would otherwise sustain, but should not. Absent the injunction, the infringer will utilize the patent to compete in the same market as the patentee and cannibalize profits the patentee would have realized in that market. When the patentee practices the patent, an injunction barring infringement of the patent protects the owner's right and ability to exploit the patent for profit.

What if the patentee does not practice the patent? In this context, the infringer's gains from its infringement do not reflect an equivalent loss or harm sustained by the patentee.¹⁰⁹ Granting injunctive relief forces the infringer to bargain for a license, the cost of which will be somewhere between patentee's anticipated losses and infringer's anticipated gains. The patentee has no economic interest in trading rights to injunctive relief for a sum less than it will receive as damages for infringement, which is a reasonable royalty. The infringer has no economic interest in purchasing immunity from the injunction for more than it could make exploiting the patent. Principles of Pareto-efficiency¹¹⁰ require that the bargain improve the party's position, not reduce it, since otherwise no rational party will agree to the bargain.¹¹¹ In this context, the injunction mirrors the restitution remedy – in the sense that it permits the patentee to capture

109. Under the Patent Act the patentee can recover damages, which include either a reasonable royalty or lost profits. The infringer's profits may be used to measure the patentee's lost profits, but that is not the same as disgorgement, which is barred. *Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.*, 761 F.2d 649, 655 (Fed. Cir. 1985). This practice is commonplace in the law, although it is scrutinized by courts to insure that the award is truly the patentee's lost profits not the infringer's actual profits.

110. Robert H. Mnookin, *Strategic Barriers to Dispute Resolution: A Comparison of Bilateral and Multilateral Negotiations*, 8 HARV. NEGOT. L. REV. 1, 11-12 (2003).

111. *Id.*

a portion of the infringer's profits – except that it leaves the allocation of the gain to the parties rather than the court.¹¹²

The Patent Act does expressly allow for injunctive relief.¹¹³ Should the Act be read and applied to permit injunctive relief to serve as a surrogate for restitution, i.e., as leverage to capture a share of the infringer's profits over and above what would constitute a reasonable royalty? The Patent Act is silent on this point. There is a reasonable argument that injunctive relief should be allowed based on the Court's argument in *Aro Manufacturing* barring restitution of the infringer's profits. A basis for the Court's rejection of restitution was language in the legislative history suggesting congressional concern over the difficulties and complexities of the use of an "accounting for profits" to fix the amount the infringer should surrender as restitution.¹¹⁴ An injunction avoids the "difficulties and complexities" and permits the parties to bargain for an allocation of the gain between themselves.¹¹⁵

On the other hand, the focus of the Court's analysis in *Aro Manufacturing* was on the use of the term "damages" in the Patent Act. The Court distinguished between the patentee's damages and the infringer's profits, holding that the term "damages" permits recovery of the former, but not the latter.¹¹⁶ Should the additional grant of injunctive relief be read as complementing the allowance of "damages," i.e., permitting an injunction barring future or continuing infringement to protect the patentee's right to a reasonable royalty or profits? Alternatively, should injunctive relief be seen as independent of "damages," i.e., permitting the patentee to use an injunction to protect its right of exclusive use and as leverage to extract a portion of the infringer's anticipated profits as the cost to of a license? This issue would have been critical had the Court in *eBay* proceeded to consider the continuing vitality of *Continental Paper Bag*,¹¹⁷ but the Court's

112. From a coasean perspective the parties should reach an agreement within the bargaining range because it will leave each party better off than if the injunction issues, the infringer complies with the injunctive, and the patent is not practiced. The critical issue is whether the court should assign a legal entitlement to the patent holder (the right to an injunction) that provides leverage to the patent holder to obtain some of the infringer's profits, over and above a reasonable royalty.

113. 35 U.S.C. § 283 (2000). See also *supra* notes 31-34 and accompanying text (discussing question of automatic grant of statutory remedy of injunctive relief on proof of statutory violation).

114. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505 (1964).

115. See generally CHISUM, *supra* note 5, § 20.02[4] (discussing 1946 revision of the Patent Act and *Aro Manufacturing Co.*).

116. *Aro*, 377 U.S. 476, 507.

117. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 733 (2006):

avoidance of reconsidering *Continental Paper Bag* does not eliminate the question of the scope of injunctive relief available under the Patent Act.¹¹⁸ If anything, the issue becomes critical because of the importance the Court assigned in *eBay* to the use of judicial discretion in deciding whether to grant or withhold an injunction in cases of established infringement.

Reading the Patent Act as treating "damages" and "injunctions" as complementary remedies designed to protect the patentee from injury would appear to be a reasonable interpretation and well within a court's discretion. Under that approach, injunctive relief would be more appropriate when the patentee practiced the patent than when the patentee would simply license its use.¹¹⁹ Calculating damages for lost profits when the patentee practices the patent is a daunting and complex task.¹²⁰ Treating the legal remedy as inadequate in this setting is well recognized and accepted.¹²¹ Calculating a reasonable royalty is a less daunting and complex task although admittedly not simple.¹²² In this latter setting, the case for irreparable injury is

Petition for writ of certiorari to the United States Court of Appeals for the Federal Circuit granted. In addition to the Question presented by the petition, the parties are directed to brief and argue the following question: "Whether this Court should reconsider its precedents, including *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 [28 S. Ct. 748, 52 L. Ed. 1122] (1908), on when it is appropriate to grant an injunction against a patent infringer."

118. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1840-41 (2006):

[The] categorical rule [attributed to the district court's decision denying injunction for lack of irreparable injury] is also in tension with *Continental Paper Bag Co. v. Eastern Paper Bag Co.* . . . which rejected the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent.

119. *Rite-Hite Corp. v. Kelly Co.*, 56 F.3d 1538, 1548 (Fed. Cir. 1995) (en banc) ("Normally, if the patentee is not selling its product, by definition there can be no lost profits.").

120. The patentee must demonstrate that "but for" the infringement it would have realized profits, *Rite-Hite*, 56 F.3d at 1545, which means there is a demand for the patented invention, there are no non-infringing substitutes, and the patentee can meet demand for the patented invention. Pappas, *supra* note 100, at 123-29. In addition, the patentee must provide a reasonable method of quantifying the lost profits, which means the patentee must demonstrate the amount of lost sales, its profit margin relative to those lost sales, the impact of the infringement on related products (e.g., the patentee uses the patented invention in other products it sells and those sales have declined as a result of the infringement), etc. *Id.* at 132-38. See also CHISUM, *supra* note 5, § 20.03[1] (discussing patentee's recovery of profits lost due to infringement).

121. FISCHER, *supra* note 14, § 21.2.3 (Problems in Measuring Legal Remedy).

122. If the patent holder licenses the patented product, those transactions presumptively establish the market rate. *Mobile Oil Corp. v. Amoco Chem. Corp.*, 915 F. Supp. 1333, 1353 (D. Del. 1994) ("Courts and commentators alike have recognized that the royalties received by the patentee for the licensing of the patents in suit is the 'most influential factor' in determining a

weaker and the court may reasonably find that damages calculated by the court or jury would adequately compensate the patentee and fully redress the wrong.

VII. CONCLUSION

Denying injunctive relief to victims of patent infringement is not without problems. It permits what is euphemistically referred to as “private eminent domain”¹²³ to the infringer when the patentee does not wish or is unable to practice the patent.¹²⁴ Yet patent law has always been a dynamic system that seeks to balance the right of exclusive use that accrues to patentee with the larger societal goals of encouraging innovation and productive use of science and technology for the public good. The right of exclusive use (the limited monopoly) is itself justified as a means of encouraging innovation, but any value or good can be “loved too much” and care must be taken to ensure that the rights of the patentee are balanced against the larger public good.

The approach of the Court in *eBay* recognizes this inherent balancing that applies to all legal rules and rulings. The Court avoided treating injunctive relief as an entitlement, or even preferred remedy, as it has in other cases of statutory violations.¹²⁵ All of the Justices accepted that the remedy of injunctive relief upon establishment of an infringement remained a matter of judgment rather than of right.¹²⁶ The disagreement among the Justices centered on how judgment should be exercised, not whether it would be exercised.¹²⁷ The critical issue then after *eBay* is how should discretion be exercised.

reasonable royalty.”). The more difficult (and more typical) case involves a patentee who does not (or has not) licensed the patented invention. In this case, the dominant test is the hypothetical license, i.e., what would a willing patentee accept and a willing licensee pay in an arms length transaction for the right to use the patented invention. See *State Indus., Inc. v. MorFlo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989); *Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers, Inc.*, 318 F.2d 1116 (S.D.N.Y. 1970), *modified*, 446 F.2d 295 (2d Cir. 1971) (setting forth multifactor test for determining reasonable royalty); CHISUM, *supra* note 5, § 20.03[1][b] (discussing *Georgia-Pacific* factors); Pappas, *supra* note 100, at 140-41 (noting test and describing *Georgia-Pacific* as “often cited”).

123. RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* § 14.9 (3d ed. 1986); cf. A. Mitchell Polinsky, *Resolving Nuisance Disputes: The Simple Economics of Injunctive and Damage Remedies*, 32 STAN. L. REV. 1075 (1980).

124. This is an example of the “holdout” problem – the party “whose position allows her to exact above market” compensation because her participation or agreement is necessary for a venture to proceed. Calebresi & Melamed, *supra* note 61, at 1106-07.

125. FISCHER, *supra* note 14, § 33.2. See also *supra* notes 31-34 and accompanying text.

126. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1838-43 (2006).

127. *Id.* at 1840-43.

The Chief Justice's concurrence emphasized the need that the exercise of discretion be principled.¹²⁸ Limiting injunctive relief to cases when damages ("lost profits") are difficult to prove is fully consistent with the overwhelming authorities on this point.¹²⁹ Not awarding injunctive relief when the plaintiff's legal remedy is adequate, results in the case when the patentee's remedy will be a reasonable royalty, e.g., damages.

Limiting injunctive relief to prevent the patentee from capturing the infringer's profits is also consistent with both concurrences. The limitation is based on the settled precedent that restitution of the infringer's profit was not carried over in the current version of the Patent Act when Congress revised it in 1946.¹³⁰ The courts have adhered to that interpretation since its pronouncement in *Aro Manufacturing* in 1964.¹³¹ Justice Kennedy's concurrence emphasized the need to prevent injunctive relief from creating greater mischief than the remedy was supposed to redress.¹³² Limiting injunctive relief to cases when the patentee practices the patent prevents courts from having their process used to leverage above market rents, which is the case when otherwise the patentee would recover only a reasonable royalty for the use of the patent.

The Court in *eBay* professed to simply reconfirming the use of the traditional test for injunctive relief to cases of established patent infringement.¹³³ Notwithstanding that sentiment, the larger meaning and use of *eBay* will likely see a substantial reduction in the granting of injunctions when the patentee does not practice the patent. This may embolden infringers to bargain hard when negotiating licenses. The lessened availability of injunctive relief, however, will not affect the availability of enhanced damages for cases of willful infringement¹³⁴ and hard bargaining will continue against that possible consequence.

128. *Id.* at 1841-42 (Roberts, C.J., concurring).

129. FISCHER, *supra* note 14, § 21.2.3.

130. *See supra* notes 107-08 and accompanying text.

131. *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 673 (Fed. Cir. 1988); *see generally* CHISUM, *supra* note 5, § 20.02[4][c] ("Though Part IV of *Aro II* was only a plurality opinion for four Justices and arguably constituted dictum, it caused a shift in the course of lower court decisions.").

132. *eBay*, 126 S. Ct. at 1842-43 (Kennedy, J., concurring).

133. *Id.* at 1838.

134. The Patent Act permits the trebling of damages (reasonable royalty or lost profits) if the infringement was willful. 35 U.S.C. § 284 (2000). Traditionally, "willfulness" meant the infringer lacked a reasonable basis for believing it could act the way it did. CHISUM, *supra* note 5, § 20.03[4][b]; Pappas, *supra* note 100, at 147-49. Recently, however, the Federal Circuit

overruled past precedent and raised the threshold for finding "willfulness." *In re Seagate Tech., LLC*, No. 830, 2007 U.S. App. LEXIS 19768, at *22-23 (Fed. Cir. Aug. 20, 2007) (en banc) ("[T]o establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent").